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SENSITIVE  
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STATE FOR NEA/ELA, NEA/RA, NEA/EX FOR HAUGH AND EEB  
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TREASURY FOR MATHIASON AND DENNIS  
COMMERCE FOR 4520/ITA/ANESA/OBERG

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TAGS: [ECON](#) [EAID](#) [EFIN](#) [EINV](#) [EG](#)  
SUBJECT: IMPACT OF NEW REVENUE MEASURES

REF: Cairo 000959

Sensitive but Unclassified. Not for Internet distribution.

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Summary  
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¶1. (U) The revenue generating measures announced by the GOE on May 5 (reftel) continue to attract attention in the local media. Press reports indicate that the measures are designed to raise about LE 14 billion (\$2.6 billion) annually, or about 5% of annual revenues. The Ministry of Finance (MOF) has provided informal confirmation of revenue figures cited in press reports. The revenue measures have been widely criticized as nullifying the "gain" that public servants hoped to achieve from the 30% salary increase package announced by Mubarak in his Labor Day speech. Investors have also characterized some of the measures as anti-business. From a fiscal perspective, these measures will help plug the deficit which the large salary increase and rising subsidy bill are creating, but the rising expenditures expose the many problems in the government's budget. The lack of public awareness and debate about the measures, and the speed with which they were approved is symptomatic of the weaknesses in the public expenditure process. The suddenness of the announcement caught the public and investors off guard and alienated many who might otherwise have been supportive of the measures. The stock had been on a tear before the announcements, coincidentally reaching its historic high on May 5. It lost 15% in 8 sessions in the days after May 5. It has now recovered somewhat, but is still 9% below its May 5 peak.

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Gasoline Sales Tax Increased  
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¶2. (U) The sales tax on 90, 92 and 95-octane gasoline, diesel (gas oil), and kerosene was raised by 35%, 32%, 57%, 47%, and 47% respectively. 80 octane was left unchanged. This measure will generate the bulk of the new revenue, estimated at LE 6 billion (\$ 1 billion) or 2% of the total annual revenue. Raising the cost of gasoline is one of the most pro-poor revenue generating measures that the government can take, given that the top quintile of the population realizes 93% of the benefit from Egypt's artificially low price gas prices. Noteworthy is the fact that the subsidy level itself was not reduced, but rather the tax on the products was increased. Hence, the resulting revenue will go directly to the MOF, rather than to the Ministry of Petroleum (which would benefit if subsidy levels were decreased), a sign that the MOF is seeking to increase control over government revenues.

¶3. (SBU) Discussion of the price increases in the press is focused on how the tax increase affects the middle class and poor. Taxis and minibuses (privately owned) are now charging higher rates in

order to pass the cost on to the customer, prompting widespread complaints from those who use this form of transport. The publicly owned buses and subway have not raised prices. As a means of measuring impact, we have not seen a noticeable fall in traffic levels, nor heard reports of falling car sales, although we will continue to monitor this. When gasoline prices were increased by 30% in 2006, passenger car sales grew 40% in 2006 and 35% in 2007. In general, growth in Egypt remains strong enough that the economy will weather this gasoline price shock. To put the price increase into context, it is important to note that Egypt still has some of the least expensive gasoline in the world, and even after this increase, the 95 octane gas costs LE 2.75 (\$.51) per liter